

## News Analysis: Strange Timing for Changes to U.K. Council Tax Benefit Scheme

by Stuart Adam, James Browne, and Paul Johnson

Reprinted from *Tax Notes Int'l*, November 5, 2012, p. 554

# COUNTRY DIGEST

## NEWS ANALYSIS

### Strange Timing for Changes to U.K. Council Tax Benefit Scheme

In a recent ministerial statement, the U.K. government announced a significant change to its plan to localize the council tax benefit (CTB) starting in April 2013. Why has such a significant change been announced to a policy two years after it was first announced, less than six months before councils will have to implement it, and after many have already consulted on the structure of proposed schemes?

The CTB provides support to 5.9 million low-income families, more than any other means-tested benefit or tax credit in the U.K. The government is now seeking to abolish the CTB across Britain and to give grants to local authorities in England, as well as the Scottish and Welsh governments, to design their own CTB systems. Further, the government plans to cut by 10 percent the funding it provides for council tax support. This would save around £500 million a year, officials said.

We have analyzed the effects of these proposals in some detail and have concluded that localization would create considerable complexity just when the universal credit is being rolled out with the intention of simplifying things. (For an explanation of the universal credit, see *Doc 2012-12804* or *2012 WTD 116-20*.)

The change could also undermine many of the improvements to work incentives that the universal credit is intended to deliver. For councils to save the full 10 percent by which funding would be cut, either the means test would have to be so severe that some people would be worse off after a pay increase, or councils would have to collect some local tax from the very poorest for the first time since the poll tax. Many councils are already in consultations over schemes that would have those sorts of consequences.

Just recently — two years after the policy was originally announced, less than four months before local authorities have to finalize their new schemes, and only a week before the third reading of the bill in the House of Lords — new proposals were forthcoming.

A £100 million package was recently announced in a ministerial statement. That money, which amounts to 20 percent of the total planned savings, would be available to councils whose schemes meet a particular set of criteria that the government considers “best practice.” It would, apparently, be available for one year only.

Councils would be eligible for the money if:

- nobody who is currently on full CTB ends up paying more than 8.5 percent of their council tax liability (in practice, because of the cost of collecting such small amounts from very-low-income households that are not used to paying council tax, councils may prefer to give a full rebate to such households);
- the rate at which the benefit is withdrawn as income rises is no higher than 25 percent (as compared with 20 percent currently); and
- there are no “cliff edges” (sudden drops) in the system.

Even with an extra £100 million to soften the blow, it is hard to see how most councils could design schemes that meet these criteria with the reduced funding intended for council tax support. Therefore, it appears the government is aiming to pay councils not only to design schemes that the government likes, but to design schemes that don’t cut support as much as the councils’ funding is being cut, leaving them to make up the shortfall from elsewhere in their budgets.

It is hard to square this development with a policy whose stated goal is to devolve responsibility. Why the additional money should be appropriate in the first year of the policy and not later is unclear. But perhaps of most concern is what this says about the policymaking process. The potential downsides that the government seems to be trying to ameliorate — losses for the poorest households and the weakening of work incentives — have been obvious to many observers for a long time.

Yet this announcement has come late in the process. The bill has already completed its passage through the House of Commons, and scrutiny by a committee of the House of Lords has concluded. The announcement came on the eve of a key House of Lords debate on amendments to the bill and just a week before the third

reading in the House of Lords. Many councils have already commenced public consultations on draft proposals (as the bill requires them to do) but are now being encouraged to change their proposals at the last moment — perhaps only to revert to their original plans when this extra funding is withdrawn a year later.

The case for well-thought-through reform of the welfare system is overwhelming. The dangers of less

fully considered reform — as this one appears to be — are considerable. ◆

◆ *Stuart Adam, James Browne, and Paul Johnson,  
Institute for Fiscal Studies, London.*

*This was originally published as an “Observation” by the  
Institute for Fiscal Studies (<http://www.ifs.org.uk/>).*